

BAKER TALC LIMITED

(NO PERSONAL LIABILITY)

ANNUAL REPORT

for the year ending february 28, 1969

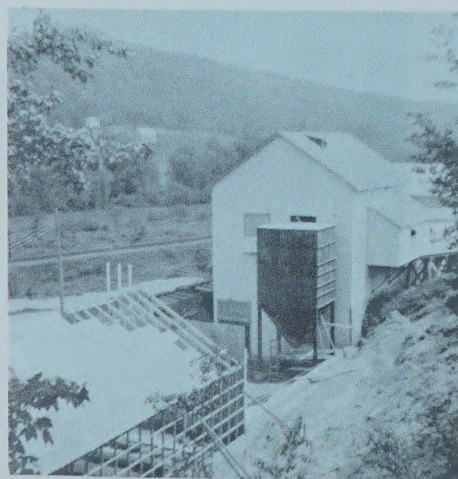
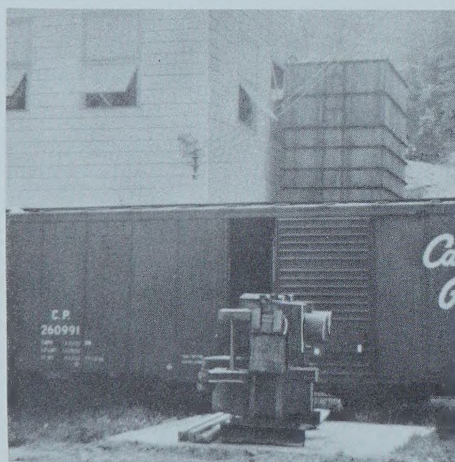
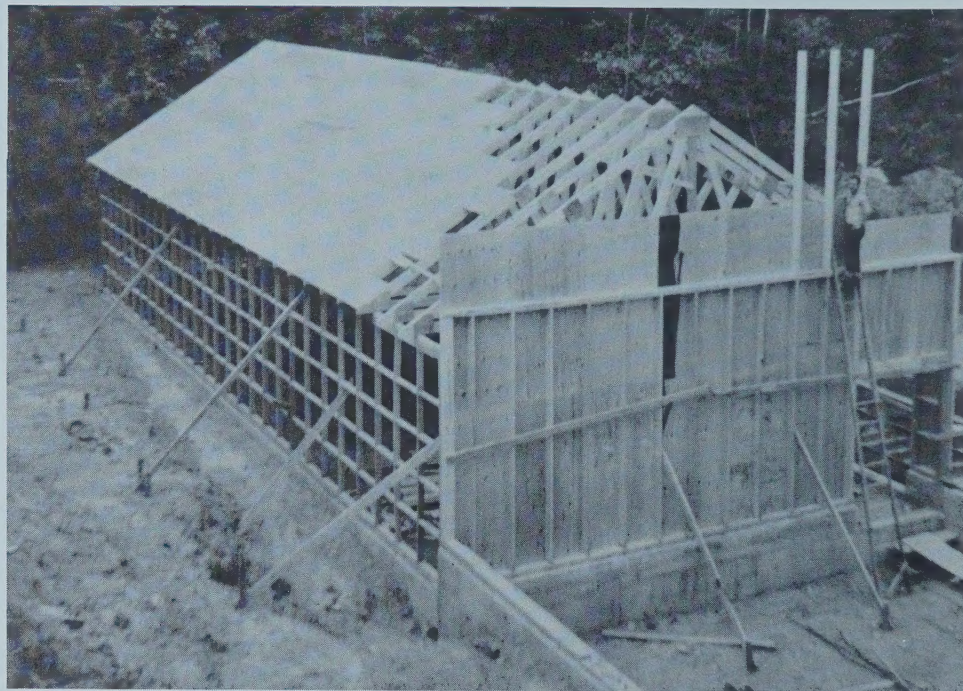
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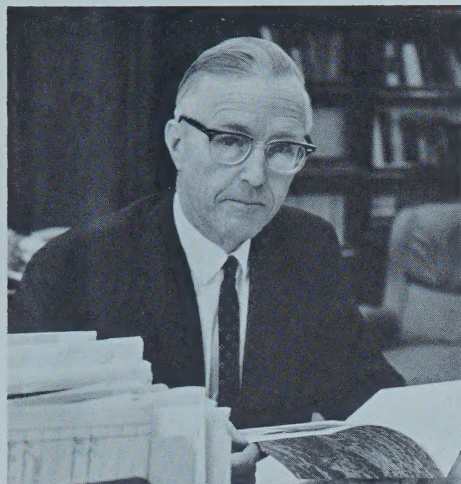
Baker Talc Limited

(No Personal Liability)

Construction views during expansion program at Baker Talc Ltd., showing 50-ton storage bin, new finished product warehouse assembly, and Jones Wet Magnetic Separator prior to installation in the new mill. The mill building, when complete, will extend over the storage bin to the new warehouse.



To the shareholders of Baker Talc Limited



Sales for the year ending February 28, 1969, showed considerable improvement over the previous year. Total sales were \$147,471 from talc production of 10,045 tons. This compares with total sales in 1968 of \$112,244 from talc production of 8,131 tons. Operating profit before amortization and depreciation was \$28,475; after deducting amortization and depreciation, the net profit for the year was \$7,864, compared to a loss of \$7,934 in the previous fiscal year.

So far this year sales have continued to increase with expanding use of talc in both building materials and pipeline coatings. The market for soapstone blocks to schools and art shops for carvings shows consistent growth. Prices of ground talc were again increased by approximately 10% in April, 1969, to cover the necessary increases in wages, salaries and supplies.

In January 1969, \$400,000 principal amount of 7% convertible debentures were offered to shareholders at par. The issue was heavily oversubscribed and it was necessary to cut down a number of the larger subscriptions in order to limit the issue to the authorized amount. Your management is encouraged by the confidence shown by the shareholders in taking up this issue. This financing has made it possible to proceed with the construction of a new plant to produce high-grade talc and to carry

out further development at the Van Reet mine. The new mill will incorporate a Jones Wet Magnetic Separator and a flotation circuit, followed by special equipment to grind the purified talc to very fine particle sizes.

Mill construction is now underway and equipment has been obtained or is on order. This plant is designed to produce 10 tons per day, on a one-shift basis, of high-grade talcs suitable for use in paint and cosmetic industries. Production can be doubled when sales warrant, by operating on a two-shift basis. It is expected that production of the new grades of talc will commence in October, if there are no unforeseen delays in deliveries of equipment.

The new process, developed by Ferro-Magnetics Ltd., a subsidiary of Magnetics International Ltd., will improve the reflectivity of our talc from 78% to 88%, so we can compete in the paint and cosmetic grade areas, where prices range from \$70.00 to \$130.00 per ton. Baker Talc's present products sell from \$11.50 to \$24.20 per ton, f.o.b. Highwater.

At the Van Reet mine the inclined shaft has been sunk to the second level, 125 feet vertically below the first level, and the second level station is being cut. When development at this level is complete it will be possible to mine out most of the pillars above the first level. The ore reserves are adequate for 15-20 years. A large compressor and hoist will be installed this fall.

Your Directors submit for your consideration the Annual Report for the year ending February 28, 1969, together with Balance Sheet, Statement of Profit and Loss and Deficit, Shared Cost Development Project, Statement of Development Expenditures, Source and Application of Funds and the Auditors' Report thereon.

Notice of the Annual Meeting of Shareholders to be held in the Windsor Hotel, Montreal, Quebec, on the 14th day of July, 1969, is enclosed. A Proxy form, in case you cannot attend the Meeting in person, is included.

Respectfully submitted on behalf of the Board of Directors.

J. H. Morgan, Ph.D.,
President
Montreal, Quebec, June 11, 1969.

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Baker Talc Limited

(No Personal Liability)

(Incorporated under
the Quebec Mining
Companies' Act on
January 21, 1952)

BALANCE SHEET, FEBRUARY 28, 1969

Statement I

Assets

Current assets:

Cash on hand and in bank	\$ 2,614	
Accounts receivable	23,981	
Inventory of talc, materials and supplies, at the lower of cost or net realizable value	8,584	
Prepaid taxes	490	\$ 35,669

Investment — shares of a mining company 1

Fixed assets — at cost:

Buildings and machinery	252,452	
Railway siding	2,554	
Truck	10,370	
	265,376	
Less: Accumulated depreciation	196,444	68,932

Land, mineral rights, and mining claims
held under development licenses (Note 1) 115,923

Deferred expenditures, at cost:

Shared cost development project (Note 2) (Schedule A)	48,496	
Less: Department of Industry (P.A.I.T.)	24,248	
	24,248	
Development expenditures, less amounts written off (Schedule B and Note 6 (iii))	259,257	283,505

Organization expenses 2,720
\$506,750

Liabilities and capital

Current liabilities:

Bank loan (partly secured)	\$15,000	
Accounts payable and accrued charges	13,049	
Accounts payable — associated company	22,755	
Advances — related company	8,000	\$ 58,804

7% Convertible redeemable debentures, due February 1, 1976

(Note 3):
Authorized \$ 400,000

Capital stock less deficit (Notes 3 and 4):

Capital stock —

Authorized — 4,000,000 shares
of \$1.00 par value each \$4,000,000

Issued —

	Shares	Discount	Net
For net assets of predecessor company	182,090	\$ —	182,090
For cash	1,424,505	(1,007,700)	416,805
	1,606,595	<u>\$ (1,007,700)</u>	598,895

Deficit (Statement II) 150,949
447,946
\$506,750

Signed on behalf of the board: J. H. MORGAN, Director

J. O. SABOURIN, Director

Auditors' report

To the Shareholders of Baker Talc
Limited (No Personal Liability):

We have examined the balance sheet
of Baker Talc Limited (No Personal
Liability) as at February 28, 1969 and
the statement of profit and loss and
deficit for year then ended and have
obtained all the information and
explanations we have required.

Our examination included a general
review of the accounting procedures
and such tests of accounting records
and other supporting evidence as
we considered necessary in the
circumstances.

In our opinion and according to the
best of our information and the
explanations given to us and as shown
by the books of the company, these
financial statements are properly
drawn up so as to exhibit a true and
correct view of the state of the affairs
of the company as at February 28,
1969 and the results of its operations
for the year then ended, in accordance
with generally accepted accounting
principles applied on a basis consistent
with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants.
May 9, 1969

Statement of profit and loss and deficit for the year ended february 28, 1969

Statement II



Sales		\$147,471
Cost of sales:		
Inventory — March 1, 1968	\$ 14,263	
Mining	28,212	
Milling and manufacturing	66,351	
	108,826	
Less: Inventory — February 28, 1969	8,584	100,242
		47,229
Administration expenses:		
Bank interest and charges	640	
Legal and audit	816	
Management and administrative services (Note 5)	5,000	
Reports to shareholders	1,728	
Travelling	241	
Taxes and licenses	868	
Prospectus, fees and expenses	3,678	
Transfer agent's fees	1,633	
Public relations and advertising	1,318	
Cost of share certificates	1,328	
Miscellaneous	1,504	18,754
Profit before deducting the undernoted items		28,475
Amortization of development expenditures incurred in talc operations, at \$1.25 per ton	12,591	
Depreciation	8,020	20,611
Net profit for the year (Note 6)		7,864
Deficit, March 1, 1968		(158,813)
Deficit, February 28, 1969 (Statement I)		\$150,949

Shared cost development project expenditure at february 28, 1969

Schedule A

Incurring by Ferro-Magnetics Limited on behalf of Baker Talc Limited:		
Salaries	\$12,682	
Plus 50% for overhead	6,341	\$19,023
Rent of separator		10,155
Costs incurred in relocating separator		946
Reflection meter for color evaluation		700
Miscellaneous expenses		302
		31,126
Incurring by Baker Talc Limited:		
Salaries	11,560	
Plus 50% for overhead	5,780	17,340
Miscellaneous expenses		30
		17,370
Total costs incurred		48,496
Less: Received or receivable from Department of Industry (P.A.I.T.)		24,248
Balance per balance sheet — Statement I		\$24,248

Baker Talc Limited

(No Personal Liability)

Statement of development expenditures from march 1, 1968 to february 28, 1969

Schedule B

	Balance March 1, 1968	Expended during the period	Balance February 28, 1969
Wages	\$122,134	10,059	132,193
Supplies	28,784	1,911	30,695
Repairs	11,254	136	11,390
Travelling expenses	693	5	698
Transportation	7,708	706	8,414
Miscellaneous	2,188	440	2,628
Taxes, fees and licenses	3,274	444	3,718
Engineering	26,318	—	26,318
Rental of equipment	3,521	262	3,783
Assays	2,663	20	2,683
Automobile expenses	3,360	57	3,417
Diamond drilling:			
Wages	1,362	—	1,362
Supplies	1,555	—	1,555
Contract	50,315	—	50,315
Dynamite and caps	21,413	1,635	23,048
Buildings and equipment	14,618	611	15,229
Administration	5,066	—	5,066
Trucking:			
Wages	804	—	804
Supplies and repairs	1,245	—	1,245
Electricity	13,795	1,482	15,277
Geophysical surveys	4,727	—	4,727
Dry room	296	—	296
Commissary supplies	2,147	—	2,147
Telephone and telegraph	748	103	851
Unemployment insurance	984	71	1,055
Workmen's compensation	3,958	300	4,258
Insurance	5,802	762	6,564
Mining rights abandoned	1,250	—	1,250
Quebec Pension Plan	160	89	249
Development expenses from incorporation to February 29, 1952	42,902	—	42,902
	385,044	19,093	404,137
Less: Written off to profit and loss	132,289	12,591	144,880
Balance per balance sheet (Statement I)	\$252,755	6,502	259,257
Summary			
Incurred by prior interests	\$ 42,902	—	42,902
On talc mining rights	212,589	18,534	231,123
On Chibougamau claims	71,955	—	71,955
On mining rights and options abandoned	17,233	—	17,233
Undistributed	40,365	559	40,924
As above, before write-off to operations	\$385,044	19,093	404,137

Statement of source and application of funds for the year ended february 28, 1969

Source:

Net profit for the year	\$ 7,864
Depreciation	8,020
Amortization of development expenditures	12,591
Funds available	28,475

Application:

Fixed asset additions	6,925
Deferred expenditures	43,341
Funds applied	50,266
Net decrease in working capital	\$21,791

Working capital February 29, 1968	\$(1,344)
Working capital February 28, 1969	(23,135)
Net decrease as above	\$21,791

Notes to financial statements, february 28, 1969

Note 1:

The amount at which the mining rights are recorded does not, and does not purport to, represent their present or future value.

Note 2:

The company entered into an agreement with the Department of Industry (Program for Advancement of Industrial Technology in Canada) dated September 29, 1967 whereunder the department undertakes to provide funds up to 50% of the reasonable and proper cost of a research project, the purpose of which is to develop suitable methods for producing high quality talc from ores mined by the company. This undertaking of the Department is limited to \$132,975.

If the company or any licensee of the company sells or uses commercially, products resulting from the project, or which contain results of the project or which are manufactured by means of new processes or equipment resulting from the project, the company will repay the sum advanced to it by the department on account of the development project, together with interest thereon at prevailing rates compounded annually.

The cost of the project at February 28, 1969 was \$48,496. (Schedule A).

Note 3:

Pursuant to a resolution of the Board of Directors on November 6, 1968, 7% convertible redeemable debentures in aggregate principal amount of \$400,000 were created. The debentures are to be severally dated the date of their issue; are redeemable at par in whole or in part at any time after February 1, 1971; and mature on February 1, 1976. They constitute a first floating charge to and in favour of the Trustee on the undertaking of the company, its property and assets. The debentures are convertible at the option of the holder into fully paid and non-assessable common shares of the company at the following rates for each \$100 principal amount:

1. On or before January 31, 1970
— 133 $\frac{1}{3}$ Common shares
2. February 1, 1970 to Jan. 31, 1972

- 100 Common shares
 - 3. February 1, 1972 to Jan. 31, 1974
— 66 $\frac{2}{3}$ Common shares
 - 4. February 1, 1974 to Jan. 31, 1976
— 50 Common shares
- The total issue was fully subscribed and paid in March 1969.

Note 4:

By resolution of the Board of Directors on March 12, 1969, options were granted, subject to qualification of the company under applicable statutes, to senior personnel of the company to purchase a total of 20,000 shares of capital stock at 75¢ per share for a period of three years. The options are exercisable 'providing that no more than 30% be exercised in any one year, any unsubscribed balance to be cumulative to termination date', and that the optionee is an employee of the company at the time of exercising his option.

Note 5:

The company is a party to an agreement with a service corporation which provides office accommodation and management services — geological, engineering and administrative. Fee paid to this corporation during the year ended February 28, 1969 amounted to \$12,000 of which \$7,000 is charged to milling and manufacturing and \$5,000 to management and administrative services. The three principal shareholders of the service corporation are the Chairman, the President and the Secretary-Treasurer of Baker Talc Limited (No Personal Liability).

Note 6:

(i) No provision has been made for income taxes for the year due to losses carried forward from previous years.

(ii) The undepreciated capital cost of fixed assets, for tax purposes, exceeds the net book value of these assets by approximately \$140,000. This amount is available to be applied against future taxable income.

(iii) The net value at which deferred development expenditures are carried on the books of the company exceeds by approximately \$130,000 the amount of such expenditures available to be written off for tax purposes. This difference represents expenditures recorded and claimed by the company in previous years but considered by the taxation department as not deductible for income tax purposes.

Note 7:

The company proposes to build an addition to the mill and to purchase additional equipment, estimated at \$250,000; it is also proposed to deepen the shaft at an estimated cost of \$50,000.

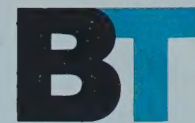
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CURRENT PRODUCTS	
TALC	END USES
A-1 to A-4	Dry wall joint filler
Roofing grade	Dusting compound for roll roofing and shingles
Soapstone	Art, handicrafts and school carvings

FUTURE PRODUCTS	
TALC	END USES
Paint grade	Paint
Cosmetic grade	Cosmetics

Baker Talc Limited

(No Personal Liability)



Officers

Chairman of the Board:
R. P. Mills

President:
J. H. Morgan, Ph. D.

Vice-President:
W. J. D. Stone, P. Eng.

Secretary-Treasurer:
J. O. Sabourin, F.C.I.S.

Directors

Ian C. Miller,
Montreal, Quebec

R. P. Mills,
Westmount, Quebec

J. H. Morgan, Ph. D.,
Montreal, Quebec

J. O. Sabourin, F.C.I.S.,
Pointe Claire, Quebec

W. J. D. Stone, P. Eng.,
Beaconsfield, Quebec

Registrar and Transfer Agent

Administration & Trust Company,
10 St. James Street West,
Montreal 126, Quebec.

Auditors

Price Waterhouse & Co.

Head Office

Suite 400, 621 Craig St. W.,
Montreal 101, Quebec.
Telephone No. 861-9233

Mine Office

Highwater, Quebec.

The Annual General Meeting
of Shareholders will be held in the
Prince of Wales Salon, Windsor Hotel,
Montreal, Quebec on July 14th,
1969, at 11:30 o'clock in the forenoon
(Eastern Daylight Saving Time).